

# memo

**To:** Finance Committee

**From:** Budget & Program Evaluation Staff

**Date:** August 10, 2020

**Subject:** 2020 Operating Budget: 2<sup>nd</sup> Quarter Analysis

## Briefing Objective

Present the 2<sup>nd</sup> Quarter Analysis and review the status of the current Administrative Actions.

## Memo Overview

This memo is organized into the following sections:

1. Overall Summary
2. Discussion of Major Changes from 1<sup>st</sup> Quarter:
  - a. General Fund Revenue
  - b. General Fund Expenditure
  - c. Enterprise Funds
3. Appendices
  - a. Projection Amounts by Agency: 1<sup>st</sup> to 2<sup>nd</sup> Q Comparison (General & Library Funds)

## Summary

General & Library Fund Summary					
	Revised Budget	1st Quarter		2nd Quarter	
		Projection	Diff	Projection	Diff
GF Revenue	(90,691,981)	(80,675,406)	(10,016,575)	(80,820,453)	(9,871,528)
Prop Tax Levy	(250,016,152)	(250,016,152)	-	(250,016,152)	-
<b>Total Revenue</b>	<b>(340,708,133)</b>	<b>(330,691,558)</b>	<b>(10,016,575)</b>	<b>(330,836,605)</b>	<b>(9,871,528)</b>
Expenditures	340,708,133	342,585,516	(1,877,383)	341,961,044	(1,252,912)
<b>TOTAL</b>	<b>(340,708,133)</b>	<b>11,893,958</b>	<b>(11,893,959)</b>	<b>11,124,439</b>	<b>(11,124,440)</b>
Library					1,161,685
<b>TOTAL-Less Library Savings</b>					<b>(12,286,125)</b>
Other Funds Projection			(12,120,597)		
<b>TOTAL-ALL FUNDS</b>			<b>\$ (23,245,036)</b>		

As of the close of the 2<sup>nd</sup> Quarter, the General & Library Funds are projecting an \$11.1 million deficit, an overall decrease of \$770k from the 1<sup>st</sup> Quarter. The projected deficit does not account for the funding from the following sources: CARES Act, FEMA, or Routes to Recovery. These sources are projected to have a \$13.5 million positive net impact on the 2020 General Fund budget (in other words, these sources will reduce the projected deficit).

The All Funds projected deficit has decreased by \$7.5m between the 1<sup>st</sup> and 2<sup>nd</sup> Quarters. The overall improved outlook is driven by expenditure reductions implemented by the Room Tax Commission along with improved outlooks for the Water, Sewer, and Stormwater utilities.

### Major Changes from 1<sup>st</sup> Quarter

In reviewing these major changes, it is important to remember the timing of the 1<sup>st</sup> Quarter data. The 1<sup>st</sup> Quarter projections were based on actual data from January 1-March 31. Based on this timing, we were less than a month into the Stay at Home orders and did not anticipate major civil unrest in our community. Many of the financial data points we have been tracking have a lag before noticeable changes in trends will be realized. Because of this timing the 1<sup>st</sup> Quarter projections included many assumptions about what might happen to revenue trends (especially where revenue is driven by utilization) and the pace at which City operations would return to normal services. The 2<sup>nd</sup> Quarter projections reflect actual revenues and expenditures that we are using to forecast the remainder of 2020.

The subsequent sections of this memo seek to provide a summary of major changes between the 1<sup>st</sup> and 2<sup>nd</sup> Quarters.

#### General Fund Revenue

General Revenues: No Projected Change

#### State Aid: No Projected Change

- The projection assumes revenue from all State Aid programs will be realized at the budgeted level.

#### Charges for Service: \$190k Surplus (\$1.4m change from 1<sup>st</sup> Quarter)

- The 1<sup>st</sup> Quarter projection assumed sharp declines in revenue from Ambulance Conveyance fees. Through the first half of the year monthly revenue from this source has exceeded the prior year trends (2017-2019). Based on 2<sup>nd</sup> Quarter assumptions, Ambulance Conveyance fees will generate a \$500k surplus in 2020.

#### Licenses & Permits: \$1.4m Deficit (\$140k change from 1<sup>st</sup> Quarter)

- Monthly revenue for Building Permits has been, on average, 90% of the monthly trend from prior years. The projection assumes revenue in the second half of the year will be 80% of the prior year trends.

#### Fines & Forfeitures: \$3.6m Deficit (\$1.7m change from 1<sup>st</sup> Quarter)

- Uniform and moving violations are projected to have a \$160k deficit. Monthly revenue from February to April exceeded prior year trends; however, no revenue has been recorded since May. The projection assumes revenues in the second half of the year will return to 75% of prior trends.
- Parking Violations are projecting a \$3.2m deficit. Monthly revenue from parking citations declined to a range between 2-20% of prior trends during the height of the Stay at Home orders. The projection assumes monthly revenues will be 10% of prior year trends for the remainder of the year.

#### Investments & Interest: \$2.2m Deficit (\$450k change from 1<sup>st</sup> Quarter)

- The projection is based on investment yields and cash balances through the 2nd quarter. Investment yields have fallen from 1.59% in January 2020 to 0.324% in June 2020. Investment yields are expected to remain below 2019 levels through the remainder of 2020 and through 2021.

#### Misc Revenue & Other Financing Sources: \$37k Deficit (No change from 1<sup>st</sup> Quarter)

- Easements & Encroachments: Based on trends from 2017-2019, the majority of Encroachment revenue is realized in the January, February, and December. While revenue from this source has trended down in May and June, all other months in 2020 have been consistent with prior years. The 2<sup>nd</sup> Quarter projection assumes continued declines from July-November with December revenues in line with prior years.

#### Transfers from Other Sources: \$3.1m Deficit (\$170k change from 1<sup>st</sup> Quarter)

- The projection reflects reduced Room Tax revenue consistent with the reductions adopted by the Room Tax Commission.

#### *General Fund Expenditures*

#### Clerk's Office: Projection=\$1.4m Deficit (\$1.3m increase from 1<sup>st</sup> Quarter)

- The projected deficit is driven by projected costs of administering elections during the COVID pandemic. The final cost of the April election was \$640k, compared to \$500k assumed in the 1<sup>st</sup> Quarter projection.

- The August and November elections are projected to cost \$1.0 million per election, or \$2.0m total. The 2020 Adopted Budget included \$1.1m to administer both elections. There is potential the November election will cost more to administer than August election, but specific cost breakdowns are not currently available.
- The Clerk's Office was recently awarded two grants totaling \$1.4m that will be used to offset the projected deficit.

#### Fire Department: Projection=\$1.0m Deficit (\$1.1m decrease from the 1<sup>st</sup> Quarter)

Revenue is projected \$178,000 lower than 1<sup>st</sup> quarter.

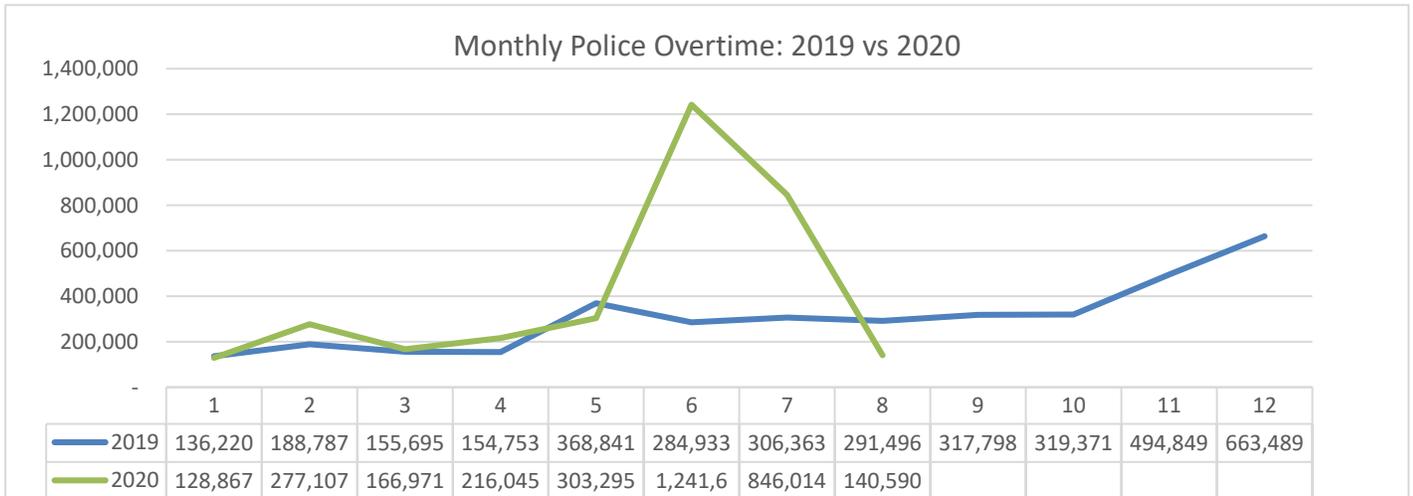
- Fire Permits are lower due to year-to-date trends (\$37,000). Permits are related to building and the general state of the economy.
- Special Duty and Reimbursement of Expense are projected lower (\$107,000) based on the reduction in anticipated events. At the time of the 1<sup>st</sup> Quarter projection, the impact of the virus on summer events was not known. The 2<sup>nd</sup> Quarter projection reflects these events being cancelled and no additional events anticipated for the remainder of 2020.

Expenses are projected \$1,270,000 lower than first quarter.

- Permanent Salaries are projected \$393,000 less than 1<sup>st</sup> Quarter due to additional vacancies and the elimination of the recruit class.
- Overtime has been reduced (\$295,000) largely due to fewer events and a reduction in overtime for elevator inspections. The 1<sup>st</sup> Quarter projection anticipated a need for overtime to complete the backlog of inspections that built up during the early stages of the shut-down. The department now anticipates completing all inspections without significant overtime. Benefits are correspondingly lower (\$163,000).
- Supplies and Services are \$419,000 lower than the 1<sup>st</sup> quarter projection due to the purchasing freeze, more data than the first quarter, and no recruit class. The largest savings are in building improvements (purchasing freeze), travel (COVID), and savings related to the cancellation of the recruit class (uniforms, MATC training, and medical services).

**Police Department: \$2.4m Deficit (\$1.1m increase since 1<sup>st</sup> Quarter)**

- The increase in the projected deficit is primarily driven by costs associated with the unrest that began in 2<sup>nd</sup> Quarter. Through the end of the 2<sup>nd</sup> Quarter, the Department has incurred \$1.5 million in overtime and mutual aid costs associated with the response. The 2<sup>nd</sup> projection assumed MPD will continue to see significant but declining protest activity through the 1st week in August, this projection is consistent with actuals through the end of July. The chart below shows monthly overtime in 2020 compared to 2019. As demonstrated in the chart, 2020 monthly overtime trends were generally consistent with 2019 before spiking in June. Overtime earned through the first half of the year has doubled from 2019 to 2020 (2019=\$1.6m vs 2020=\$3.2m).



The 2020 Period 8 amount (August) includes only 1 pay period, compared to 2 in 2019

**Streets Division: \$263k Deficit (\$620k increase since 1<sup>st</sup> Quarter)**

- At the 1<sup>st</sup> Quarter the Streets Division was projecting an overall surplus, based on 2<sup>nd</sup> Quarter assumptions the Division will have a \$620k deficit in 2020. The change is driven by updated assumptions pertaining to how staff time is being allocated across the General, Stormwater, and Urban Forestry funds.
- The 1<sup>st</sup> Quarter projection assumed Streets would reach full staffing during the summer months (fill 6 vacant positions) and filling all hourly positions. The Streets Division is currently holding 9 permanent positions vacant and has filled 4 of 17 hourly positions.
- The 2<sup>nd</sup> Quarter projection continues the assumption for three additional general plow events in the 4<sup>th</sup> Quarter. In 2019 there was one general plow event during the 4<sup>th</sup> Quarter. The projection assumes an additional salt purchase will also be made in the 4<sup>th</sup> Quarter, there is potential that purchase can be deferred to 2021.

**Library: \$1.2m Surplus (\$860k increase from 1<sup>st</sup> Quarter)**

- The 1<sup>st</sup> Quarter projection assumed the Libraries would reopen at some point in the 2<sup>nd</sup> Quarter. This assumption has been updated to reflect the Libraries remaining essentially closed, except for curbside pick-ups and computing appointments, for the rest of the year. This has resulted in a reduction in expenses of \$800,000 from the 1st Quarter.
- While printing service revenue and revenue from fines are projected under budget \$280,000, the MPLF (Library Foundation) has committed to additional donations of

approximately the same amount, leaving the overall projection for revenue essentially consistent with the 1<sup>st</sup> quarter.

- Personnel savings increased by \$800,000 driven by holding 10.6 positions vacant and savings on hourly staffing.

**Parks: \$130k Deficit (\$695k decrease from 1<sup>st</sup> Quarter)**

- The 1<sup>st</sup> Quarter projection assumed a \$623k loss in charge for service revenue. Based on 2<sup>nd</sup> Quarter assumptions, this revenue loss has increased to \$790k primarily resulting from a high number of event cancellations.
- Lost revenue is partially offset by additional salary savings. Savings from personnel costs increased from \$100k in the 1<sup>st</sup> Quarter to \$890k in the 2<sup>nd</sup> Quarter. The major change can be attributed to the use of redeployed staff reducing the need for hourly employees (total hourly savings=\$380k).

**Community Development Division: \$56k Surplus (\$260k decrease from 1<sup>st</sup> Quarter)**

- CDD’s overall projected surplus decreased due to assumptions in Community Agency Contracts. The 2<sup>nd</sup> Quarter projection assumes the full budgeted amount for these contracts will be spent.
- In both the 1<sup>st</sup> and 2<sup>nd</sup> Quarters, Childcare Tuition Assistance was projected to have a \$100k surplus. Changes and/or expansion of this program will reduce CDD’s overall projected surplus likely resulting in an overall agency deficit.

*Enterprise Funds*

Other Fund Summary			
	1st Quarter	2nd Quarter	Change
1250 - ROOM TAX COMM	(4,061,488)	340,703	4,402,191
2100 - WATER UTILITY	(3,180,803)	630,109	3,810,912
2110 - SEWER UTILITY	(124,460)	657,817	782,277
2120 - STORMWATER UTILITY	1,459,460	672,257	(787,203)
2130 - PARKING UTILITY	(5,358,473)	(6,560,857)	(1,202,383)
2140 - CONVENTION CENTER	(3,582,974)	(2,308,482)	1,274,492
2150 - METRO TRANSIT	(3,416,917)	(5,386,235)	(1,969,318)
2160 - GOLF COURSES	(901,762)	(358,461)	543,301
2200 - FLEET SERVICES	276,482	196,776	(79,706)
5100 - CDA	(170,660)	(0)	170,660
6100 - PUBLIC HEALTH MADISON DANE	187,732	(4,224)	(191,956)
	<b>(18,873,862)</b>	<b>(12,120,597)</b>	<b>6,753,265</b>

The projected gap within the City’s enterprise funds decreased by \$6.7 million from the 1<sup>st</sup> to 2<sup>nd</sup> Quarters. The changes are outlined below:

#### Room Tax: \$340k Surplus (\$4.4m Increase from 1<sup>st</sup> Quarter)

- The Room Tax Commission recently adopted what equated to 50% of expenditure reductions. The 1<sup>st</sup> Quarter projection did not reflect any expenditure reductions.

#### Water Utility: \$630k Surplus (\$3.8m Increase from 1<sup>st</sup> Quarter)

- During the 2<sup>nd</sup> Quarter the Water Utility received approval to begin implementing a 9% rate increase. The rate increase took effect in first week of August, the 2<sup>nd</sup> Quarter projection assumes a 6% increase for August and 8.9% increase for the remainder of 2020. The 1<sup>st</sup> Quarter did not include an assumption for increased revenue from rates.
- In addition to the rate case, the Water Utility has also implemented a series of cost controls to reduce overall spending, including holding positions vacant and deferring non-essential spending.

#### Parking Utility: \$6.5m Deficit (\$1.2m Increase from 1<sup>st</sup> Quarter)

- Projected revenue losses resulting from COVID increased by \$1.0m from a projected \$7.2m loss in the 1<sup>st</sup> Quarter to an \$8.2m projected loss in the 2<sup>nd</sup> Quarter. The 1<sup>st</sup> Quarter projection assumed monthly revenue would return to 30% of prior trends in the summer months, based on actual data monthly revenue has only rebounded to 17%. The projection assumes revenues will remain under 50% of prior trends through the remainder of 2020.
- The Parking Utility currently has 28 employees on a workshare program that is scheduled to end on September 1<sup>st</sup>.

#### Convention Center (Monona Terrace): \$2.3m Deficit (\$1.3m Increase from 1<sup>st</sup> Quarter)

- 2<sup>nd</sup> Quarter projections include the 50% reduction adopted by the Room Tax Commission in June. A portion of Monona Terrace's Room Tax reduction (\$795k) will be implemented by reducing funding for 2020 capital expenditures.
- The 2<sup>nd</sup> Quarter projection assumes a September opening date (pushed back from August in the 1<sup>st</sup> Quarter projection). There are currently 75 paying events booked through the remainder of 2020.
- Monona Terrace currently has 15 employees (out of 54.75) that are on a workshare program for at least one day/week. The projection assumes these employees will remain on workshare through early December.

#### Metro: \$5.4m Deficit (\$1.9m Increase from 1<sup>st</sup> Quarter)

- The most significant change from Q1 projections is lower estimates for charge revenues. In Q1, farebox revenue estimates were assumed to return to 2019 levels by July. Actuals from Q2 and temporary fare-free service now drive lower estimates for revenue. While Q1 estimated \$9.3m in charge revenues, Q2 estimates \$6.4m.
- This projection does not include the use of CARES Act funding in 2020.

## Status of Administrative Actions & Budget Amendments

The Administrative Actions issued in May remain in place in an effort to continue controlling spending. Agency purchasing and hiring requests continue to be reviewed by the Mayor's Office on a weekly basis.

During the fall a series of 2020 budget amendments will be introduced to reflect receipt of CARES Act funding, Wisconsin Route to Recovery, and FEMA funds.

# APPENDICES

## Appendix A: 2<sup>nd</sup> Quarter Projection by General Fund Agency

2nd Quarter Projection by Agency: General & Library Funds					
	Sum of Revised Budget	2nd Q Projection	2nd Q Difference	1st Q Projection	Change from 1st Q
00 - DIRECT APPROPRIATIONS/XFERS	76,357,098	74,883,416	1,473,682	75,656,653	773,237
10 - ASSESSOR	2,712,661	2,805,436	(92,775)	2,835,391	29,955
11 - ATTORNEY	3,247,167	3,367,237	(120,070)	3,168,219	(199,018)
12 - CIVIL RIGHTS	2,065,980	1,994,512	71,468	2,005,627	11,115
13 - CLERK	3,332,498	4,700,046	(1,367,549)	3,353,402	(1,346,645)
14 - COMMON COUNCIL	867,265	841,522	25,743	858,052	16,530
15 - FINANCE	4,200,760	3,767,145	433,615	3,638,459	(128,686)
16 - HUMAN RESOURCES	2,009,449	1,824,151	185,297	1,992,536	168,384
17 - INFORMATION TECHNOLOGY	7,192,726	7,146,741	45,985	7,017,707	(129,033)
19 - MAYOR	1,513,669	1,466,780	46,889	1,490,933	24,153
20 - MUNICIPAL COURT	223,501	226,054	(2,553)	224,957	(1,097)
22 - EMPLOYEE ASSISTANCE PROGRAM	416,687	440,521	(23,834)	455,982	15,460
30 - FIRE	57,037,891	58,010,410	(972,519)	59,102,301	1,091,891
31 - POLICE	81,830,949	84,284,442	(2,453,493)	83,143,701	(1,140,741)
40 - ENGINEERING	4,505,518	4,028,529	476,989	4,088,743	60,214
43 - TRANSPORTATION	518,601	457,604	60,997	500,818	43,214
44 - STREETS	26,400,649	26,664,306	(263,657)	26,043,963	(620,343)
45 - TRAFFIC ENGINEERING	6,907,718	7,022,618	(114,900)	7,316,881	294,263
50 - LIBRARY	19,163,603	18,001,917	1,161,685	18,866,312	864,394
51 - PARKS	14,736,923	14,867,723	(130,801)	15,563,360	695,637
60 - BUILDING INSPECTION	4,948,414	4,929,193	19,221	5,057,935	128,742
62 - COMMUNITY DEVELOPMENT	14,174,892	14,118,607	56,285	13,859,502	(259,105)
63 - ECONOMIC DEVELOPMENT	2,041,377	1,905,137	136,240	1,944,540	39,402
64 - PCED OFFICE OF DIRECTOR	684,202	525,838	158,364	753,229	227,391
65 - PLANNING	3,617,935	3,681,157	(63,221)	3,646,314	(34,843)
		\$ 341,961,044	\$ (1,252,912)	\$ 342,585,516	\$ 624,472

